Electronic Funds Transfer (EFT)

Any taxpayer may participate in the EFT program. This includes many taxpayers whose payments fall below the required threshold. However, Indiana taxpayers whose average withholding tax payments during a twelve (12) month period exceed $10,000 monthly, are required to make withholding payments using EFT. For more information, contact the Department's EFT Section at (317) 232-5500.

Withholding Returns

WH-1 Withholding agents assigned to a quarterly, monthly, or early filer filing status will be mailed a voucher packet containing the Indiana Employer's Withholding Tax Returns, Form WH-1. This return needs to be completed and mailed (postmarked) by the appropriate due date and should include the total amount withheld for that period. By law, the return still must be filed even when no withholding amount has been collected. (See the Filing Status Chart for due dates.)

Employers paying monthly withholding payments by electronic funds transfer (EFT) must file this form quarterly. Form WH-1 is used by the withholding agent to report (not pay) the amount of tax withheld and remitted electronically during the preceding quarter. (See the Filing Status Chart for due dates.) Monthly returns are not required when payments are made by EFT.

WH-3 After the year ends, all Indiana withholding agents are required to complete and to file an annual reconciliation form, WH-3, by February 28 of the following year. This form shows the accumulated amount of state and county income tax withheld for the entire year.

WH-18 Form WH-18 is filed to report tax withholding on nonresident partners, shareholders, beneficiaries, or contractors. This form must be sent in with the withholding agent's annual reconciliation, Form WH-3.

Withholding Agents' Records

Every withholding agent is required to have a correct listing of all employees (both residents and nonresidents). This list must show the following items individually for each employee: whether they are employed by the month, week, day; and the length of time covered by a normal pay period. Your records must also show all salaries, wages, tips, fees, bonuses, and commissions paid to nonresidents for services performed in Indiana.

Withholding Agents' Statement to Taxpayers

Every withholding agent withholding tax from income must give each employee or nominee a statement of the amount of taxable income paid or credited and the amount of state and county tax withheld. This is usually shown on a Federal Form W-2 Wage

and Tax Statement or a Form WH-18. The employer should complete this form by showing the amount of state and county income tax withheld, the state and county amounts paid on which this withholding was made, and the name of the state and county in question.

The employer must file a copy with the Indiana Department of Revenue by February 28 of the following year with the annual reconciliation Form WH-3. A copy also must be given to the employee by January 31 following the end of the calendar year in which the money was withheld. A $10 penalty will be assessed for each Form W-2 or Form WH-18 that is not filed with the Department by the due date.

Withholding by Partnerships and Small Business Corporations

Every partnership and small business corporation is required to withhold Indiana adjusted gross income tax on amounts paid or credited to its nonresident partners or shareholders. This is true regardless of reciprocal agreements between Indiana and the partner's or shareholder's resident state. If their county of principal employment on January 1 is shown on IDN # 1, then a county income tax is also required to be withheld.

Withholding by Trusts and Estates

Withholding of state and sometimes county income tax is required by trusts and estates when Indiana income (except income from interest or dividends) is distributed to a nonresident beneficiary. Withholding is based on the income amounts at the rate of 3.4%.

Withholding of Gross Income Tax from Payments Made to Nonresident Corporate Contractors

All persons, businesses, organizations, or government agencies are required to withhold Indiana gross income tax from contract payments made for the performance of services in Indiana on corporate contractors who are not registered with the Secretary of State to do business in Indiana. This tax must be withheld at the high rate of 1.2% of the gross amounts paid to nonresident contractors in excess of one thousand dollars ($1,000) during the calendar year.

For more information regarding the Indiana Withholding Tax contact the Department at:

Indiana Department of Revenue
Taxpayer Service Division
Indiana Government Center North
Indianapolis, IN 46204-2253
(317) 233-4016
www.state.in.us/dor/

Withholding Instructions for Indiana State and County Income Taxes

These instructions are to be used in conjunction with Indiana Departmental Notice #1 (IDN #1). This and other income tax bulletins are available free of charge and can be obtained either by calling the forms order line at (317) 615-2581; or, if you have access to a fax machine, you may call the Indiana TaxFax System at (317) 233-2FAX (2329). The TaxFax retrieval code for Departmental Notice #1 is 61322.

Definition and Liability of Withholding Agent

Employers making payments of salaries, wages, tips, fees, bonuses, and commissions that are subject to Indiana state and/or county taxes, and who are required by the Internal Revenue Code to withhold federal income tax on those types of payments, are considered to be withholding agents.

To determine if you need to withhold Indiana state and/or county taxes from your employees earnings, you must first contact the Internal Revenue Service (IRS). If the IRS determines you are required to withhold federal taxes from the salaries, wages, tips, fees, bonuses, and/or commissions paid to your employees, then you are also required to withhold Indiana state and/or county taxes.

As a withholding agent you are responsible for withholding Indiana state and county income taxes from payments you make to your employees. This withholding tax must be paid to the Department by the due date. If you do not file a return and/or pay the proper amount of tax withheld by the due date, penalty and interest will be due. An employer, officer, or partner may be personally subject to criminal prosecution if the failure to pay and/or file a withholding return is due to fraud or tax evasion.

Registration of New Withholding Agents

New employers are required to register as Indiana withholding agents and to obtain an Indiana taxpayer identification (TID) number. The TID number is an Indiana identification number exclusive to each taxpayer and their locations.

Employers have two registration options available to them. The first option is to file the Indiana Department of Revenue Business Tax Application, Form BT-1. Processing of an application takes approximately four weeks.

The second option is for the employer or a responsible officer of a corporation to visit any of the Department of Revenue's offices located throughout the state to be registered while they wait. There is no registration fee for either option.

Use of State Form WH-4

All employees of Indiana employers are required to complete and file Form WH-4, Employee's Withholding Exemption and County Status Certificate. The information included on this certificate tells the employer the number of exemptions each employee is claiming and for which county (if any) the employer is to withhold county tax. The employer should keep this certificate with his records for verification purposes. Employees should update their WH-4 by January 1 of the following year if their county of residence or county of principal employment changes. Employees should also update their WH-4 at the time their exemption total changes.

How to Figure State and County Income Tax

IDN #1 shows how to figure the amount of state and county income tax to be withheld from your employees' earnings every pay period. It also lists the Indiana counties that have adopted a local income tax along with the resident and nonresident tax rates. This bulletin is revised in June of every year and automatically will be sent to all registered withholding agents.

County income tax will be withheld at either the resident or nonresident tax rate (never both). If the Form WH-4 shows that an employee was a resident of an Indiana county that is listed in the bulletin, then the employer has to withhold county tax on payments made to the employee using the resident tax rate from Column A .

However, if the Form WH-4 shows an employee was a resident of a county not listed in the bulletin, then the employer must look at the county of principal employment. If the employee's Indiana county of principal employment is listed in the bulletin, then the employer has to withhold county tax on payments made to the employee using the nonresident tax rate from Column B.

Finally, if both the county of residence and the county of principal employment from the Form WH-4 are not listed in the bulletin (i.e., Indiana counties that have not adopted a county tax or counties located outside Indiana), then the employer will not withhold any county tax for that employee.

The county of residence and the county of principal employment are fixed on January 1 of each year. Therefore, if an employee moves to a different county or changes the county of employment during the year, the county withholding requirements will not change until January 1 of the next year.

Employees Who Are Not Residents of Indiana

Indiana employers must withhold Indiana state tax from employees who work in Indiana but are not residents of Indiana. The only exception would be when an employee is a resident of one of the states that has entered into a reciprocal agreement with Indiana (see below). Also, county income tax at the nonresident rate must be withheld on a nonresident employee if his county of principal employment is listed in IDN #1.

Reciprocal Agreements

Residents of Kentucky, Michigan, Ohio, Pennsylvania, and Wisconsin who earn wages, salaries, tips, and commission income in Indiana are exempt from Indiana state income tax because Indiana has a reciprocal agreement with these states. Form WH-47, Certificate of Residence, should be completed by residents of these states working for Indiana employers. This certificate is an affidavit showing the employee's state of legal residence and provides proof that no withholding of Indiana state income tax is required. The employer should keep Form WH-47 for his records and not send it to the Department. NOTE: Reciprocal agreements do not affect county taxation. The employer must withhold county tax if the county of principal employment of the nonresident employee is listed in IDN #1 .

Special Withholding Groups

Withholding agents frequently call the Department of Revenue with questions about the special requirements for particular groups of employees. We have listed the most common circumstances below:

***Part-time or Summer Employees**:* Withholding agents are required to withhold state and county income tax from part-time or summer employees as though they were full-time or permanent employees. This is true even if the IRS waives federal withholding requirements or if the employee does not earn more than the $1,000 Indiana exemption allowance.

Casual Laborers, Domestic Employees, and Ministers: Withholding agents are not required to withhold state and county income tax from casual laborers, some domestic employees, and ministers. However, because the income earned by these employees is subject to taxation, the employees may ask you to voluntarily withhold state income tax. If you choose to withhold Indiana state income tax, then you also must withhold: Indiana county income tax (if applicable) and federal income tax.

Agricultural Laborers: For these types of employees, you must first call the IRS to determine if you meet federal withholding requirements. If you must withhold federal income taxes, then you also must withhold Indiana state and county income taxes.

Household Employees: If you meet federal withholding requirements then you must withhold Indiana state and county income taxes. You may pay these taxes with the filing of your individual income tax return **only** if you choose not to establish a withholding account.

Pension Annuitants: You are not required to withhold federal or state income tax on pension or annuity payments that meet certain qualifications of the IRS. However, if your business is located in Indiana and a retired employee requests state income tax be withheld, you must withhold the state income tax. The retired employee may also request you voluntarily withhold Indiana county taxes from their pension or annuity payments. Finally, if your business isn't located in Indiana, you can voluntarily withhold the state and county income taxes from pensions and annuities. The employee must complete Form WH-4P, Annuitant's Request for State Income Tax Withholding. Keep this form in your records as verification of the voluntary arrangement you have made with the employee.

Filing Status

The Department will assign each new withholding agent a filing status. This is based on the anticipated monthly wages paid to Indiana employees. For existing withholding agents, the Department annually reviews each withholding account and assigns the filing status based on the employer's preceding year's average monthly withholding.

If the withholding account's average monthly payments significantly increase or decrease over the course of the year, the filing status of the account will be changed. The Department will notify you in writing (at the end of the year) of the newly assigned filing status.

Filing Status Chart

If the preceding year's (or current year's anticipated) average monthly withholding is:	The Department will assign the following filing status:	The due dates for returns and payments are:
$10 or less	annual	January 31 of following year
$75 or less	quarterly	last day of month following end of quarter
$1000 or less	monthly	30 days after the end of the month
$1000 or more	early filer	20 days after the end of the month
$10,000 or more	early filer paying by electronic funds transfer	20 days after the end of the month; or, 20 days after the end of each quarter